DOCUMENT RESUME

ED 373 ?25 CE 067 059

TITLE Location. Unit 9. Level 2. Instructor Guide. PACE: Program for Acquiring Competence in Entrepreneurship. Third Edition. Research & Development Series No. 302-09.

INSTITUTION Ohio State Univ., Columbus. Center on Education and Training for Employment.

PUB DATE 94

NOTE 25p.; For the complete set, i.e., 21 units, each done at three levels, see CE 067 029-092. Supported by the International Consortium for Entrepreneurship Education, the Coleman Foundation, and the Center for Entrepreneurial Leadership Inc.

AVAILABLE FROM Center on Education and Training for Employment, 1900 Kenny Road, Columbus, OH 43210-1090 (order no. RD302-09 IG, instructor guide $4.50; RD302-09 M, student module, $3; student module sets, level 1--RD301M, level 2--RD302M, level 3--RD303M, $45 each; instructor guide sets, level 1--RD301G, level 2--RD302G, level 3--RD303G, $75 each; 3 levels and resource guide, RD300G, $175).

PUB TYPE Guides - Classroom Use - Teaching Guides (For Teacher) (052) -- Guides - Classroom Use - Instructional Materials (For Learner) (051)

EDRS PRICE MF01/PC01 Plus Postage.

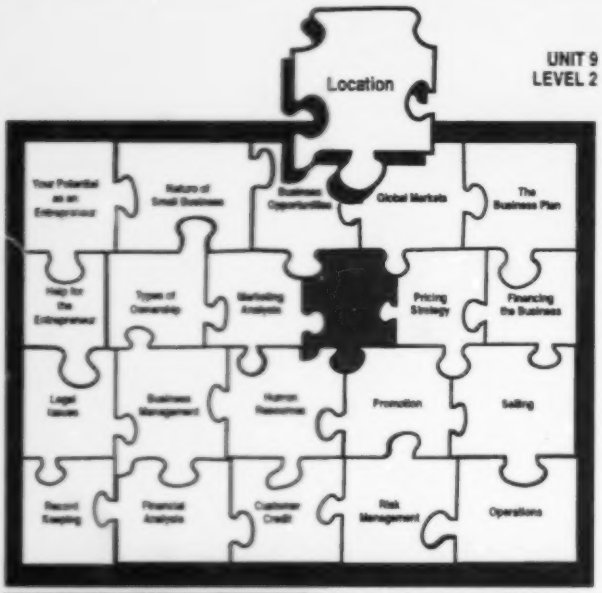
DESCRIPTORS Behavioral Objectives; Business Administration; *Business Education; *Business Skills; *Competency Based Education; *Entrepreneurship; Learning Activities; Postsecondary Education; Secondary Education; Small Businesses; Teaching Guides

IDENTIFIERS *Marketing Mix; *Program for Acquiring Competence Entrepreneurship

ABSTRACT

This instructor guide for a unit on locating a business in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 2 of learning--planning for a business in one's future. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: appropriate business locations, factors in selecting business sites, advantages and disadvantages of different types of locations, and steps in selecting a business site. (KC)

ED 373 225



INSTRUCTOR GUIDE

Unit 9

Location

Level 2

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

Objectives:

- Determine appropriate business locations.
- Identify factors to be considered when selecting business sites for specific types of businesses.
- Determine advantages and disadvantages of different types of business locations.
- Determine steps involved in selecting a business site.

CE 067 05-9

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
This document has been reproduced as received from the person or organization originating it.
Minor changes have been made to improve reproduction quality.
Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
Chansler
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

BEST COPY AVAILABLE

Objectives	Teaching Suggestions
1. DETERMINE APPROPRIATE BUSINESS LOCATIONS	
How important is the right business location?	Lead an open discussion about the importance of business location. Have students offer their insights on the business success factors for retailers, wholesalers, service firms, and manufacturers respectively.
2. IDENTIFY FACTORS TO BE CONSIDERED WHEN SELECTING BUSINESS SITES FOR SPECIFIC TYPES OF BUSINESSES	
What general factors should be considered when choosing a business location?	Use an overhead or chalkboard to list the general factors affecting business location decisions (economics, competition, population, layout, and transportation). A useful approach is to first list success factors as perceived by students; next, the instructor may add other factors to complete the list.
What factors should you consider for specific types of businesses?	Continue the above suggestion to list factors related to specific businesses (retail, wholesale, services, and manufacturing).
3. DETERMINE ADVANTAGES AND DISADVANTAGES OF DIFFERENT TYPES OF BUSINESS LOCATIONS	
What are some advantages and disadvantages of business locations?	This section is rich in new concepts. Encourage students to create a file using note cards to keep record of new definitions and terms. After students acquaint themselves with the new ideas, ask questions to outline advantages and disadvantages related to various business locations (e.g., shopping center, neighborhood malls, industrial parks, factory outlet malls, etc.).
4. DETERMINE STEPS INVOLVED IN SELECTING A BUSINESS SITE	
What steps are involved in selecting a business site?	Invite a local entrepreneur who has recently started a business. Have him/her talk about his/her own experiences related to business location decisions. Next, have students compare what the guest speaker talked about with the steps presented in the text.

Objectives	Teaching Suggestions
What should be done to appraise a business location?	Introduce the concepts of real estate appraisal, audit, physical inventory, condition of the inventory, price of the business, and sales agreement. Understanding these terms is far more important than memorizing them. A useful approach is to present the facts that characterize the sale of a business. Encourage students to use newly introduced concepts.
What help is available for selecting a location?	Acquaint students with sources of help available for selecting a business site. Classify the sources into free and paid categories. Show what each category is comprised of (e.g., paid sources—planning commissions, consultants, private corporations, etc.; free sources—The Statistical Abstract of the United States, County and City Data Book, the Small Business Administration Centers, etc.)

MODEL ASSESSMENT RESPONSES

1. When analyzing potential locations, entrepreneurs consider railroads, highways, airports, local zoning regulations, proximity to suppliers and customers, etc. In addition to these issues, general factors characterizing a geographical area should be thoroughly assessed prior to making final decisions. These include economics, population, competition, public transportation, and the physical layout of the site.

2. Before selecting a business site, retailers should consider the following factors: (1) daily traffic volume, i.e., how many cars pass by the location, (2) compatibility and nearness to other businesses which draw customers, (3) parking facilities, (4) public transportation, and (5) local zoning regulations.

   Wholesalers are interested in choosing a business site close to retailers with an already established identity, in an area with a growing population. Closeness to highways, rail lines, and sometimes airports, as well as local utility services and zoning ordinances are all of importance.

   Service firms and retailers consider many of the same factors. However, proximity to potential and existing customers is a key issue.

   Manufacturers assess accessibility, transportation factors, community services, and potential growth in the area, such as labor supply and demand, population growth, income trends, closeness to purchasers and suppliers, zoning regulations, etc. when considering locations sites.

3. Business clusters tend to form when general and specific factors are favorable to many firms. Some of these are specific factors, such as shared overhead costs, advertising, leasing, and land development. There are also general factors, such as population, growth potential, new major factories opened in the area, new government projects, etc.

Natural clusters appear to the benefit of variety of businesses. For example, a supermarket in a shopping center will serve as a destination store and thus attract customers for the other retailers in the immediate area.

Planned clusters form to take advantage of shared costs in a shopping center, neighborhood center, industrial park, office complex, executive suites, etc.

4. Five sources which provide expert help in making location decisions are: (1) The Statistical Abstract of the United States, (2) The Survey of Current Business, (3) The Small Business Assistance Centers (SBACs), (4) bankers, and (5) consultants.

   The Statistical Abstract of the United States publishes national annual demographic data on population and income. The Survey of Current Business publishes monthly sales data for various products and services, economic information and consumer buying habits data. The Small Business Administration offers a large variety of publications which are meant to guide entrepreneurs who make location decisions. Bankers offer financial information and advise on credit issues. Consultants, such as real estate developers, offer their experience and expertise to entrepreneurs seeking comprehensive paid services.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
(614) 292-4353, (800) 848-4815.

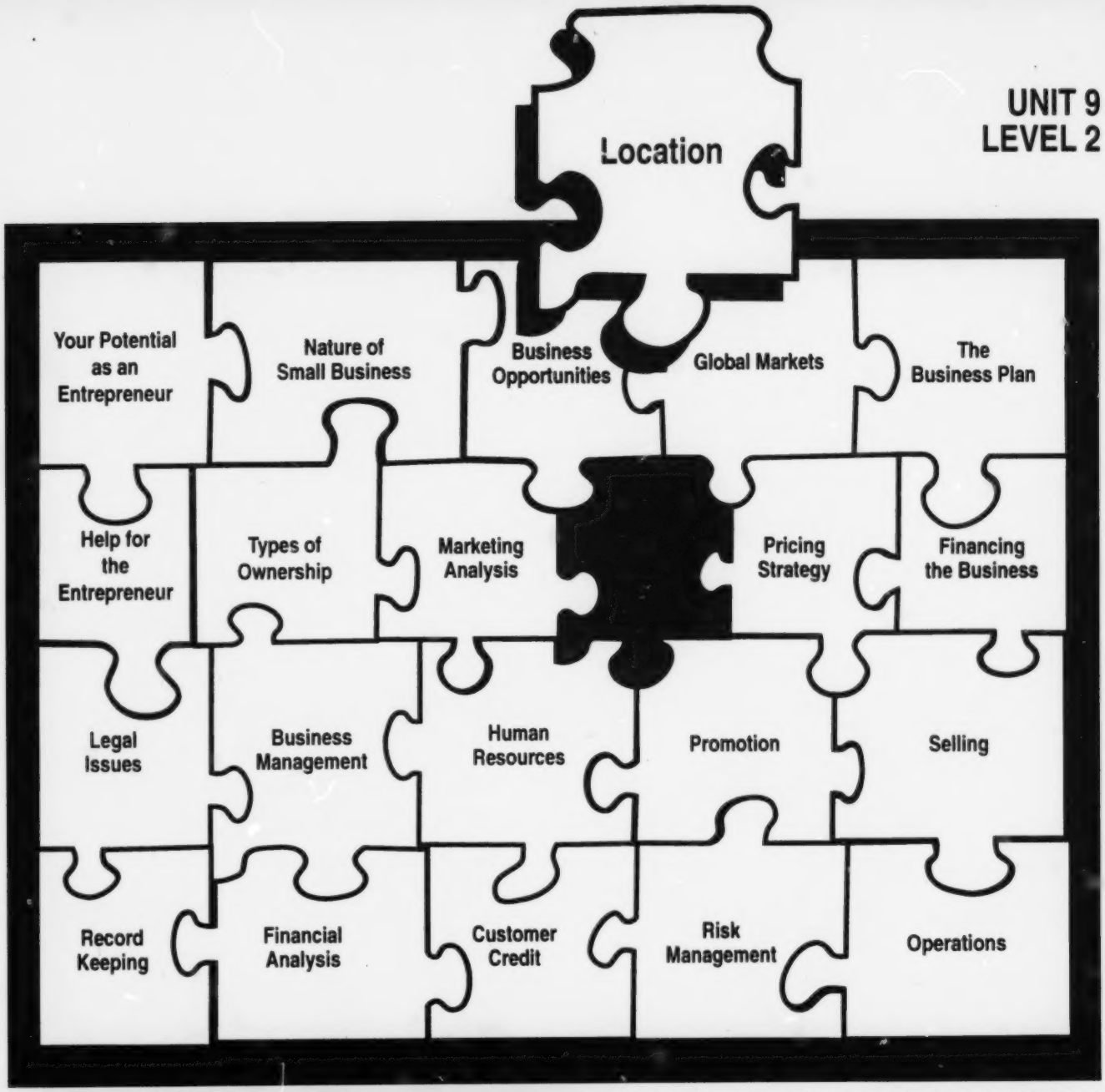
Support for **PACE, Third Edition** provided in whole or in part by:

International Consortium for Entrepreneurship Education and International Enterprise Academy
Center on Education and Training for Employment
The Ohio State University

The Coleman Foundation

Center for Entrepreneurial Leadership Inc.
Ewing Marion Kauffman Foundation

UNIT 9
LEVEL 2



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 302-09

LOCATION

BEFORE YOUR BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1:

   - Explain the importance of "place" in the marketing mix.
   - Identify factors that affect site choices.
   - Identify sources of help available for selecting a business site.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Appraisal	Location strategy
Audit	Open-air/enclosed malls
Convenience goods	Physical inventory
Income level	Revitalization
Industrial base	Shopping goods
Investments	Specialty goods
Local ordinances	Zoning laws

Copyright © 1994, Center on Education and Training for Employment,
The Ohio State University. All rights reserved.

LOCATION

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- determine appropriate business locations,
- identify factors to be considered when selecting business sites for specific types of businesses,
- determine advantages and disadvantages of different types of business locations, and
- determine steps involved in selecting a business site.

WHAT IS THIS UNIT ABOUT?

For retail and service-oriented businesses the importance of developing a thorough *location strategy* cannot be overstated. This business decision can ultimately determine the success or failure of a business. No matter what type of business you are considering, an appropriate location will get you started on solid ground.

The focus of this unit is planning the right business location. Topics include the importance of the business location, general location factors, specific location factors, types of business locations, and assistance available for site selection.

HOW IMPORTANT IS THE RIGHT BUSINESS LOCATION?

Depending on the type of business, *location* can be a major factor in determining the success of the enterprise. The sales volume of your business may be greatly affected by the location of the business. Some businesses must be located near their customers, while for others, it is important to attract customers to the business. A poor location means you must attract customers by means other than convenience. These include reducing prices, increasing promotions, or some other costly practice that may diminish profits.

There are businesses for which *location* is important for other reasons. For example, mail-order clothing companies. They may seek a geographical location that offers tax

incentives to businesses to relocate to their state. Because of the nature of their business, they do not need to be physically close to their customers, but the incentives will improve the profit picture.

When planning the location of your business, an important consideration is the nature of the business you will operate. Although there are general factors to be considered for locating any business, the importance of these factors varies with the type of business operation.

Easy access and traffic patterns are very important for **retail** establishments. Customers should be able to reach these businesses from major roads. Ample parking should be available. Even the different pedestrian traffic patterns within a shopping center are important to owners of retail businesses.

Many studies of customer traffic patterns have been completed. Anyone planning a retail business should examine these studies. Patterns that contribute to the success of theaters, service stations, drugstores, and apparel shops—all vary in important ways.

Different factors are of primary importance when selecting sites for **wholesale** establishments. Rail and truck carriers should have easy access. The wholesale establishment should be located near major highways or rail lines. Because of the nature of the facilities, equipment, and fixtures, the number of good sites is often limited by zoning laws and permits.

Although being close to a shopping center has advantages for many service businesses, customers are likely to seek out and travel farther for a service. They will often go out of their way to visit a preferred dentist or a TV repair shop. However, even among service firms, differences exist in the relative importance of the factors to be considered in site locations.

Manufacturing firms have the most restrictive zoning limitations. If your business is classified as a manufacturing business, check into zoning laws, shipping facilities, availability of appropriate buildings, distance from raw materials, and nearness to the potential market. All are important site considerations.

Selecting the right site is of vital importance to the success of your business. The following information will help you rate available sites as you study them, and to compare these sites in terms of their suitability for your type of business.

WHAT GENERAL FACTORS SHOULD BE CONSIDERED WHEN CHOOSING A BUSINESS LOCATION?

As more and more businesses enter the market, entrepreneurs have an increasing need to support proposed facilities with a market analysis. Five general factors should be examined when choosing a business site: *economics, population, competition, public transportation*, and *layout*. The first four factors are the basic variables for a market analysis. Layout is becoming a major concern to entrepreneurs due to increased costs related to making changes in the physical design of the facility.

Economics. Basically, the analysis of the economic area assesses whether the market is able to support an additional business establishment. In simple terms, the economic analysis of a geographic area establishes whether there is sufficient demand in the local market to support a new business. Therefore, employment, income, and all retail/wholesale/service/manufacturing sales need to be investigated.

- *Employment* is an important variable because it determines the purchasing power of potential customers. *The U.S. Census of Population* provides data on employment by industry, labor force, and unemployment rates. The Census data covers a long period of time, usually ten years. However, the local state employment security departments and the local planning commissions update this information on a more frequent basis.

- *Income* trends can be analyzed using the sources mentioned above. It is critical to interpret income data correctly. The average household size, the average income per capita (per person), and the average family income signal whether the area has enough buying power to support additional businesses. Often professional assistance is required to evaluate income trends.

- *Retail/wholesale/service/manufacturing sales* trends offer information regarding possible seasonal swings in the industry. Studying the major employers in the community will help the entrepreneur to understand that to some extent, their success is heavily dependant on the performance of major companies in the community. The community effort put forth to attract new businesses, is another factor business owners should consider. Data of sales by industry is provided by the *U.S. Bureau of Census, Consumer Expenditure Survey* and the *U.S. Department of Labor, Bureau of Labor Statistics Monthly Labor Review*, the *Sales and Marketing Magazine* and the *Consumer Buying Power Review* are additional sources of information.

Population. Population is an important variable in the market analysis. Entrepreneurs should analyze past trends in population growth, concentration, origins, buying habits, tenure (i.e., whether a family owns or rents a home or an apartment), and other related aspects. For example, business owners can determine if there is a market need for a new facility and where it should be located. The U.S. Census of Population offers data on past trends. Current estimates are provided by planning commissions, as well as state and local agencies. However, entrepreneurs will need to make their own population forecasts based on current and past trends, zoning regulations, and city or county plans for their own community.

Competition. The type and number of competitors is another important factor when analyzing the market potential. The presence of major retail centers, industrial parks, franchises, chain and department stores should be noted. An intense competition in the area shows that new businesses will have to divide the market with existing businesses. Consequently, there will be businesses which will not survive in the long run. If you are not able to offer a better quality, competitively priced product, you might reconsider that particular location. Another critical aspect is the way buyers perceive the existing businesses, the quality

of the competitors' management, their size, and historical trends (i.e., how many businesses have entered and exited the market and why). You should check with the chamber of commerce, local commission and zoning regulations about major planned developments in the area.

Public transportation. Before deciding whether a certain area is desirable for a business, public transportation should be evaluated. The presence of bus lines, subways, or local trains helps draw customers to an area. In addition, major arteries passing by the location maximize access to the trade area. Public transportation is critical in overpopulated metropolitan areas where lack of parking creates major problems.

Layout. Layout refers to the physical arrangement of a facility which allows workers, machinery, and equipment to operate efficiently. Manufacturing firms need a different type of layout than service firms. Before choosing a business site, entrepreneurs should carefully consider costs related to changes in layout. If these costs are considerably high, you might need to consider another location. Many businesses choose to ask developers to build new facilities based on their own specifications. In this case, *lease* and *purchase terms* are of critical importance. The lease agreement assigns rights, duties, and responsibilities of both the owner and the tenant. Typically, lease agreements cover the duration of the lease, allowed uses of the property, restrictions on alterations and improvements to the property, the responsibility for maintenance and repair, and other conditions related to insurance, payment of expenses, renewal of the agreement provisions, etc.

WHAT FACTORS SHOULD YOU CONSIDER FOR SPECIFIC TYPES OF BUSINESSES?

Once you have studied the general factors and selected a geographic area or city, you must choose the actual business site. The specific considerations vary with the nature of the business. Issues such as competition, traffic flow, transportation, parking, and zoning ordinances should be analyzed when planning the site of the business. The relative importance of these factors depends on whether you are planning a retail establishment, manufacturing firm, wholesale business, or service business.

Retail firms. The success of a retail store lies in its ability to attract customers. The store must be located close to where its potential customers travel. The type of goods you sell determines how close you should be to your customers. Stores that sell *convenience goods*, such as candy and cigarettes, need to be located in high traffic areas. Businesses selling *shopping goods*, such as appliances and furniture, can be successful on secondary streets, since customers will make some effort to search them out. *Specialty goods*, such as jewelry or health foods, can be sold by stores "off the beaten path," since consumers are often willing to travel for the right item.

The nature of neighborhood stores is another planning consideration. Some stores will not draw enough customers alone, so they should locate near stores that draw similar customers. Some stores are incompatible as neighbors; one store's customers may drive away customers from another store. For

example, studies have shown that clothing stores and service stations are not compatible neighbors.

Ideally, customers should face few problems in reaching a store. In planning the location, consider parking facilities, public transportation, and the volume of traffic. Many entrepreneurs conduct a traffic analysis to determine the number and type of persons traveling in a certain area of town.

You should also consider factors such as zoning and other local ordinances, the cost of the site, and the general appearance of the area surrounding the site.

Wholesale firms. These businesses sell merchandise to retailers or other wholesalers in the area. Prosperous retailers in the area, a growing population, and a broad economic base are positive factors. When planning for the specific site of the wholesale firm, consider closeness to major highways or rail lines. Local utility services and zoning ordinances should also be investigated.

In many areas, an old established wholesaling district may meet the needs of the firm. Recently, many wholesalers have located on the outskirts of towns near major highways.

Service firms. The location factors for a service firm are similar to those of a retail firm. Some services require the customer to be present, such as a dry cleaner. Other services are provided on the customer's premise, such as pest control or janitorial services. A location near customers is most important for the first type of service firm. Others can operate anywhere with a phone and necessary storage. As a general principle, business services should be located near their targeted customers.

Manufacturing firms. Site location for small factories requires the analysis of many of the factors already discussed for other businesses. Access to the market, transportation facilities, community services, and potential for expansion have been mentioned as factors to consider. Additional factors for small manufacturers include the quantity and quality of the labor supply, availability of raw materials, zoning regulations, and community attitudes toward the business.

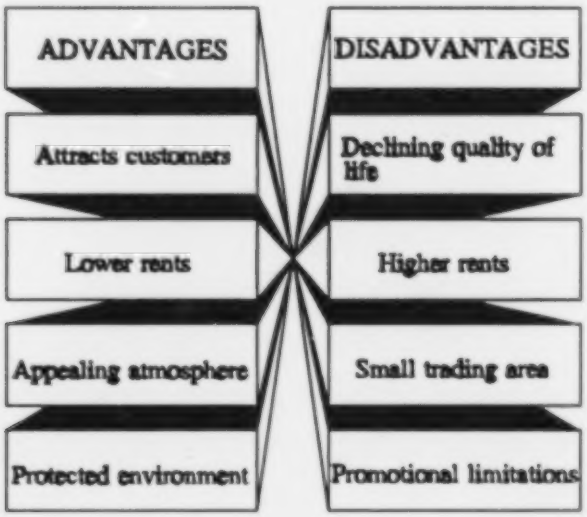
A careful analysis of these factors is necessary for the selection of the proper factory site. The proper site will minimize many of the problems faced by small manufacturers.

WHAT ARE SOME ADVANTAGES AND DISADVANTAGES OF BUSINESS LOCATIONS?

Think about the future of your business as you gather information on economics, population, transportation, competition, and physical layout. Did you notice any industry or community development trends when reviewing the data? Are these likely to continue? Once you know about development plans for the area, you can attempt to make forecasts regarding your own business.

You will probably notice that businesses in your area tend to cluster together. This is natural, since many of the general factors, and some of the specific factors apply to many businesses. If a factor is favorable to

Advantages and Disadvantages of Clustered Shopping Districts



one business, chances are that same factor is favorable to other businesses.

Business clusters can be divided in two categories: *natural* and *planned* clusters. *Natural clusters* tend to appear where already established businesses can benefit from a market already in place. For example, the presence of an all-purpose department store in a newly developed area has already established a market to take advantage of the traffic flow of customers attracted by the department store. Other retailers, such as dry cleaners, video stores, fast-food restaurants, or service stations will likely move nearby.

Planned clusters form to take advantage of shared costs of operations, advertising, land development, maintenance, and leasing among many businesses. Examples of modern planned clusters are industrial parks and factory outlet malls.

Businesses will cluster into one of the following types of locations:

- Central shopping districts
- Neighborhood shopping areas
- Shopping centers
- Industrial parks
- Factory outlet malls
- Miniwarehouse malls
- Office complexes
- Business incubators
- Executive suites
- Home-based businesses

Central shopping districts are the main shopping centers in the city or town. They are generally located on the main streets and often include several buildings. Government offices, banks, and similar types of institu-

tions provide a market for restaurants, theaters, service and retail businesses.

The major advantage of this type of location is the drawing power of the numerous and large retailers, such as department and discount stores. Heavy pedestrian and automobile traffic make it a good location for stores selling convenience items. The advertising and sales promotions of the individual stores draw additional customers from a large trading area. Recently, through urban renewal and revitalization projects, the downtown areas of many cities and towns have been made more attractive to small businesses.

A major problem in many central shopping districts is the declining quality of life. High crime rates, vacant stores, and traffic congestion are unpleasant facts of life in many cities and towns. Another problem is raised by competing stores or malls which open in the vicinity of central shopping districts.

Neighborhood shopping areas are scattered throughout cities and towns, along busy streets closest to residential areas. This kind of cluster includes small to medium-size retail and service stores. These locations are attractive to small business owners because of lower rents and operating costs. Additionally, the personal contact with friends and neighbors creates repeat business. Furthermore, a well-balanced assortment of stores also tends to draw customers. The major drawback to these locations is that they generally attract customers from a small trading area of a five-miles radius. Consequently, these shopping areas will support only smaller stores.

Shopping centers have grown with the increased use of the automobile. Shopping centers are usually located on the outskirts of a city or town, near a major highway. The three basic types of shopping centers are *neighborhood*, *community*, and *regional*.

- *Neighborhood shopping centers* are designed to serve people living within a five-to-ten-minute drive from the shopping area. If the stores are aligned, these locations are often referred to as *strip malls*. A supermarket is often the largest store in the center. The other retailers offer a large variety of convenience goods or services.

- *Community shopping centers* attract customers willing to drive 20 minutes or more to the shopping area. Most community shopping centers are *open-air*, as opposed to *enclosed malls*. Usually, a major department store and/or a supermarket will serve as the major customer traffic builder. In addition, other retailers offer a wide selection of shopping goods and specialty services.

- *Regional shopping centers* are mixed-use facilities. Usually, these shopping centers are enclosed malls, and have two or more major department stores. Customers will often drive from areas located 40 minutes away, or even more. Chain stores, franchise outlets, banks, offices, clinics, movie theaters, ice cream parlors, and sometimes hotels are typical tenants of regional shopping centers.

The major advantage of shopping centers is their ability to attract customers. This drawing power is enhanced by a planned tenant mix, pooled advertising, and promotion programs. In addition, ample parking is provided. Shopping centers attempt to create an attractive and appealing overall

atmosphere. Many centers sponsor promotional events, such as new car shows, flower shows, and new product introduction events to attract potential customers.

Shopping centers do have some disadvantages. The cost of space in a shopping center can be high. Also, tenants must give up some of their independence, since most stores are required to maintain uniform business hours. Moreover, tenants may be limited in their advertising and promotional programs to ensure they meet standards established by the shopping center decision-making authority. Center management can also increase maintenance fees without consulting with the tenant stores.

Industrial parks. Industrial parks are to manufacturers and wholesalers what shopping centers are to retailers. Industrial developers provide the industrial firms with the location factors most sought after by these firms. Industrial parks are relatively new, planned locations. These parks are generally located on the outskirts of towns and cities. Major highways and/or rail lines are located close by, or run through the park, thus ensuring convenient shipping and receiving. In addition, utility hookups for industrial use are also in place.

Factory outlet malls include discount and outlet stores which carry traditional manufacturer's products. Some factories have outlet stores on their own to market their merchandise. Manufacturers own these stores and make a special effort to avoid conflict with traditional retailers' products. These outlet malls are usually located outside of metropolitan areas.

Miniwarehouse malls are loosely planned centers that sell space to retailers, wholesalers, and light manufacturers that operate out of warehouse locations. This type of center does not usually have any kind of coordinated promotional, lease, maintenance program, or store mix.

Office complexes. These are usually a series of offices located in one, or a series of buildings that extend vertically or horizontally. Office complexes provide space for all types of business services and some selected retailers. Examples of service providers are tax firms, small real estate companies, bank branches, medical offices, private employment offices, and other temporary services.

Business incubators are places where start-up businesses can develop and grow in a protected environment. These locations provide lower rent and central services, such as telephone answering, secretarial, mailroom, and fax services. The main advantage of business incubators is that start-up overhead costs are very low. In addition, professional advisement is offered. As the business grows, there comes a time when the business must leave the incubator and operate on its own. The time spent in an incubator is usually limited to three years.

Executive suites are buildings where manufacturers' representatives and other business people in the distribution channel can maintain an office. The advantages offered by executive suites are: an office address, telephone answering, a meeting place, furnishings, and other related office services. Executive suites are a place to "hang one's hat." They place business people one step above doing business out of the home.

Home-based businesses. The number of business start-ups from the home are growing in leaps and bounds. Doing business at

home can significantly reduce costs. In some cases there is no need to expand out of the home. At other times it is wise to do so. However, you should consider the home situation, type of business costs, and needs before deciding to start your business at your own home. In addition, you will have to check the zoning regulations in your community to determine if you are allowed to do your business from home.

WHAT STEPS ARE INVOLVED IN SELECTING A BUSINESS SITE?

Many factors must be reviewed when planning a business location. An organized approach to this task is helpful. You may want to follow these steps—

1. Select an area for consideration.
2. Survey several promising sites within the area.
3. Establish specific criteria for the site.
4. Rate each site based on that criteria.
5. Make your decision.

As you take the first two steps, consider economic, population, and competition characteristics. Consider the nature of your business and the various types of business locations as you do the last two steps.

You can develop a checklist similar to the one that follows. This will help you organize your search.

I. Characteristics of the Economy

- What types of industry exist in the area?

  Agriculture
  Manufacturing
  Wholesale
  Retail
  Other

- What is the condition of the industrial base?

  Stable
  Growing
  Declining

II. Characteristics of the Population

- What income levels exist in the area?

  High
  Middle
  Low

- Which age levels contain the most individuals?

  Preteenagers
  Teenagers
  Young Adults
  Adults
  Senior Citizens

- Where do people live?

  Urban areas
  Suburban areas
  Rural areas

III. Characteristics of the Competition

- How many competitors exist?

  Many
  Few
  None

- Where do the competitors exist?

  Along the main streets
  Scattered throughout the area
  In shopping centers

- What are types and numbers of competitors?

  National or regional firms
  Franchise operations
  Local operations

IV. Nature of Your Business

Retail
Service
Wholesale
Manufacturing

V. Specific Factors to Consider

- Are you aware of local ordinances affecting your business?
- Are you located near your customers?
- Are transportation facilities adequate?
- Are neighboring businesses compatible with yours?
- What is the cost of the site?
- Are municipal services available?
- Is the labor supply adequate?
- Does the location layout meet the needs of your business?
- Do you have room to expand?

VI. Types of Business Locations

- Which of the following locations exist in your area?

  Central shopping district
  Neighborhood shopping area
  Major traffic routes
  Shopping centers
  Industrial parks

- Are they appropriate for your type of business?

WHAT SHOULD BE DONE TO APPRAISE A BUSINESS LOCATION?

As a potential buyer, you must analyze the business carefully to determine its worth. Throughout your evaluation, you should consult experts, such as public accountants, bankers, lawyers, chamber of commerce personnel, professional trade association advisors, and real estate specialists. They will provide you with objective answers to your questions.

One of the first questions you should try to answer is "Why does the seller want to sell?" Is it because of poor personal health, retirement, or decreasing sales? Sometimes people buy an existing business and find out a couple of years later that the seller opened a competing business at a better location. Consider the seller's answer thoughtfully. You want to be sure it is accurate. Talk with the local bankers, customers, suppliers, and possibly even competitors and employees. Listen to what they say. Knowing the real reason for selling will help you decide whether or not to buy.

Another major concern when evaluating the business is determining its *profit potential.* When analyzing profit information, ask three questions:

- What are the profit trends of the business?
- Are the profits similar to other businesses in the same industry?
- If profits are low, is it realistic to believe they can be increased with your leadership?

Other questions that need to be answered are these:

- If the seller has an exclusive selling agreement with a supplier, can it be transferred to you?
- Does the business have a good reputation with its customers?
- Are there special licenses required because of change in ownership?
- What is the initial amount of money needed to get into this business, including purchase price, working capital, money for repairs, and purchase of new stock?

Before you decide to buy a firm, arrange for an *audit* of the seller's records and financial statements. Use a reliable accounting firm. In addition to the current audit report, you will want to have information on past sales and profit figures. This type of information is available in the seller's tax returns. Beware of a seller who is not willing to share the information needed to conduct a complete audit. A serious seller should be willing to comply with an audit.

It is also wise to have an expert appraisal of the equipment, building, fixtures, and other fixed assets to determine their current worth. This requires a *physical inventory.*

You will also need to study the *condition of the inventory.* You must determine how much of the stock can be sold, whether the inventory is balanced (i.e., Is there too much of one item?) and how much of a loss you will take by getting rid of unsatisfactory items.

Finally, you and the seller must agree upon the *price for the business.* Since the seller has an emotional investment, as well as a financial investment, the selling price may be higher than the fair market price. Therefore, before you make your final decision, be sure to have an accountant determine the net worth of the business. The *sales agreement* or *contract* should be drawn up by a lawyer.

Do not attempt to do these activities yourself unless you are an expert accountant or attorney. This way, you may avoid any future headaches and mistakes.

WHAT HELP IS AVAILABLE FOR SELECTING A LOCATION?

Your business location should be a result of study and planning, not a hunch. Selecting the correct site is complicated and requires studying many factors. These factors relate to the type of business to be established, customers to be served, and types of goods and services to be sold. Therefore, conducting a thorough market study is very important. This study does not need to be sophisticated, but it must be done carefully. In addition to conducting your own research, a great deal of free or inexpensive data is available. Many organizations are willing to assist in conducting the study.

A first step in conducting research for planning a business location is to gather appropriate data. Many sources of free and inexpensive data are available to an owner of a small business that will make it possible to conduct a preliminary feasibility study. The government is also a valuable source of information that publishes the following items:

- *Statistical Abstract of the United States.* This annual publication includes national demographic data on such items as population and income.

- *County and City Data Book.* Data for any city or county with a population over 25,000 is included in this source. Also included in this book is information concerning the number of businesses, number of families, number of multi-family and single-family housing units, and average income information.

- *The Survey of Current Business.* This useful monthly publication includes sales volume for various products and services, economic information (including unemployment data), and articles on subjects such as changes in consumer buying habits.

- An additional source of information is provided by the *Survey of Buying Power,* published yearly by *Sales and Marketing Management* magazine. This survey prints data on individual and family purchasing power for specific metropolitan areas of the United States.

Once a preliminary study has been conducted, additional information and assistance can be obtained from a variety of organizations. Some organizations will have economic survey results and other data, such as traffic counts collected locally. Some agencies will help you conduct your study or will provide guidance, or even do some of the collection and analysis of the information. Contact the following agencies to obtain their services:

- Small Business Administration

- National or local Chamber of Commerce

- Trade associations such as the National Retail Merchants Association
- Planning commissions
- Manufacturers and wholesalers
- Neighboring businesses
- Bankers
- Consultants
- Real estate developers
- Local colleges

Once you have gathered your data, the actual site selection process can begin. The entrepreneur can conduct the study or employ professionals. Many area development groups provide their services free of charge. These groups are generally one of three types: government sponsored, civic organizations, or private corporations. The services provided include—

- information such as wage and tax rates;
- contacts with influential and knowledgeable people;
- financial assistance arrangements for loans, grants, and investments; and/or
- projections of economic potential.

Planning the location of a business requires reviewing many factors. Information and assistance for planning a business location is abundant. An entrepreneur should use these resources in a planned, methodical way. The business location decision is important. For many, the opportunity only comes once.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

A first step in planning a business location involves a study of the economic, population, and competitive characteristics of a geographic area. Compile a list of specific questions to be answered or information needed for each of the major factors in locating a small business of your choice. Visit a library located within the geographic area under consideration and obtain as much information as possible concerning the items on your list. Feel free to add new questions to the list as you conduct your research. Prepare a final list of the items and their answers to use as a planning tool.

B.

A second step in planning a business location is analyzing the factors concerning the selection of a specific business site. Visit at least two real estate agencies or an economic development agency, and compile a list of factors they consider when selecting locations for the type of small business you are planning. Select a local business and, through observation, interviews, and library research, evaluate its location for each of the factors identified by the real estate or economic development agency.

GROUP ACTIVITIES

A.

Work in teams of four to six. Using the "Real Estate" section of your local newspaper choose a site for a fictitious business. Try to find out as much as you can about the site history. Be creative when doing your information gathering. Then, compile a list of factors that make this location attractive, as well as reasons it may be unattractive for your specific business.

B.

The instructor should divide the class into groups of four to six students. Each group is assigned a particular area in the home town and a particular type of retail/service business (e.g., grocery store, fast-food restaurant, dry-cleaner, gas station, car repair shop, etc.). Groups are supposed to explore sources of data presented in the text to assess whether the market can support an additional business in the area. The analysis will include economics, population, competition, public transportation, and physical layout factors.

CASE STUDY

Sara Toney has been operating a catalog sales store affiliated with a large national department store. During the first two years she has been in the business, sales have increased every month due to effective promotions and an emphasis on customer service.

The most profitable sales are the large home appliances, like washers and dryers, refrigerators, and electric ranges, all of which are delivered and set up free of charge. The increased sales of large appliances have caused space problems due to display and storage requirements. Several of the appliances in storage and on the display floor have been damaged due to the crowded conditions.

The store is leased at very reasonable terms, is located close to the intersection of two main streets in the center of town, and has ample parking. The layout of the store is long and narrow, with the narrow front of the store facing a main road. This narrow front severely limits the amount of window display and promotion area.

The central shopping district of the town has been undergoing changes in the past few years. Some old established businesses have gone out of business or sold out. Several new businesses have been started, but are struggling to make it. Two new national retailers—a drug store and a general merchandise store—have opened and seem to be doing well.

Sara has been approached by a local real estate developer to become a tenant in a shopping center under construction two miles outside of town. The shopping center is being located at the intersection of the main north-south route through town and a soon-to-be completed four lane highway. The major tenant in the center will be a store in a regional grocery chain. Ten other establishments will be located in the shopping center, none of which is an appliance store. The tenant space the developer has selected would double the space of Sara's current store, but the rent would be four times her current lease payments. Sara has asked you for advice on evaluating the new location.

DISCUSSION QUESTIONS

1. What questions should Sara ask the developer?
2. What factors should Sara consider in evaluating the move?
3. Where can Sara get information that will help her make a decision?
4. Under what conditions would you advise Sara to make the move?

18

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Identify the general factors that should be considered when analyzing potential locations for a business.

2. Identify and explain the factors that should be considered when selecting sites for the following types of firms:

   - retail
   - wholesale
   - service
   - manufacturing

3. Explain the process of developing natural and planned business clusters and give examples of each.

4. List five sources of assistance or information available to help small business owners plan site locations. Describe the type of assistance from each source.

REFERENCES

Burstiner, I. *The Small Business Handbook*. Englewood Cliffs, NJ: Prentice Hall, 1989.

Ghosh, A., and McLafferty, S. *Location Strategies for Retail and Service Firms*. Lexington, MA: D.C. Heath and Company, 1987.

Greenfield, W. *Developing New Ventures*. New York, NY: Harper and Row, 1989.

Megginson, L., et al. *Successful Small Business Management*. Homewood, IL: Irwin, 1991.

PACE

Unit 1. Your Potential as An Entrepreneur
Unit 2. The Nature of the Small Business
Unit 3. Business Opportunities
Unit 4. Global Markets
Unit 5. The Business Plan
Unit 6. Help for the Entrepreneur
Unit 7. Types of Ownership
Unit 8. Marketing Analysis
⇨ Unit 9. Location
Unit 10. Pricing Strategy
Unit 11. Financing the Business
Unit 12. Legal Issues
Unit 13. Business Management
Unit 14. Human Resources
Unit 15. Promotion
Unit 16. Selling
Unit 17. Record Keeping
Unit 18. Financial Analysis
Unit 19. Customer Credit
Unit 20. Risk Management
Unit 21. Operations
Resource Guide
Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business